

~~CONFIDENTIAL~~

16 MAY 1979

MEMORANDUM FOR: Members and Advisors  
Agency Contract Review Board

X1 FROM: [REDACTED]  
Chairman, Agency Contract Review Board

SUBJECT: Audit Services for CIA Industrial Contracts

1. The Defense Contract Audit Agency (DCAA) has proposed an expansion of its services to CIA by assuming responsibility for all audit services for Agency industrial contracts. This would include cost and price analyses, as well as interim and final audits. Heretofore, a special contingent of DCAA, identified as Detachment A, has provided the full range of audit services for contracts associated with National Programs. Insofar as Agency-funded contracts are concerned, DCAA has responded to Agency requests for information on rates, both direct and indirect, for contractors with which they are involved. DCAA has not been allowed to perform any audit of direct costs incurred under Agency-funded industrial contracts.

X1 2. To date the Chief, Procurement Management Staff, Office of Logistics, [REDACTED] has been involved with Office of Finance in two separate meetings with regard to the proposal from DCAA. While there has been no decision at this time, either to reject or accept the DCAA proposal, the Office of Finance has suggested that the issue at hand is basically a procurement matter and might best be handled by the Agency Contract Review Board (ACRB). The specific proposal is that the ACRB review contracts coming before the Board for possible assignment to DCAA for interim and final audit. Clearly the Board could not make such a determination on cost or price analysis, except on sole source actions since the cost or price analysis has usually been performed prior to presentation to the Board.

3. While the primary function of the Board has been to review contract actions associated with major acquisitions, and to recommend approval or disapproval by the Director of Logistics, the Charter of the Board is broad enough to allow consideration of policy issues. I believe that the DCAA proposal touches on issues vital, not just to procurement, but also to security, finance, and to the various requirements offices. As evidenced by some of the documents attached hereto,

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SUBJECT: Audit Services for CIA Industrial Contracts

DCAA auditors would necessarily become involved with all Agency contracts as well as with finance procedures, sources and methods, and Agency personnel. It is a matter for Agency-wide concern. For this reason, I have accepted the Office of Finance proposal to bring the DCAA plan to you for your consideration.

4. Rather than generate a specific point or position paper, I have included the following documents which I believe adequately describe the DCAA proposal, along with various pros and cons:

- a. Memorandum for the Record, fm   
C/PMS/OL, subject: Audit Services for CIA Industrial Contracts (draft)
- b. Multiple Addressee Memo, fm DDA, subject: CIA Contract Audit (draft)
- c. Memo for D/Finance, dtd 7 May 79, fm C/CT/DEG/OD&E, subject: Proposed Transfer of Contract Audit Responsibility to Defense Contract Audit Agency
- d. Memo for D/Finance, fm C/CSAD/OF, dtd 22 Mar 79, subject: Utilizing the Services of the Defense Contract Audit Agency in Support of Agency Procurement Activities.

5. Your review of the attached documents will be appreciated. This policy issue will be discussed at the regular ACRB meeting on 23 May 1979.

Attachments



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*Diary*

MEMORANDUM FOR THE RECORD

25X1  
FROM:

Chief, Procurement Management Staff, OL

SUBJECT: Audit Services for CIA Industrial Contracts

REFERENCE: Memo to D/Fin, dtd 22 Mar 79, fm C/CSAD/OF,  
Subject: Utilizing the Services of the Defense  
Contract Audit Agency in Support of Agency  
Procurement Activities

1. The Defense Contract Audit Agency (DCAA) has proposed that it expand its services to CIA by assuming responsibility for all audit services for our Agency. DCAA already provides the full range of audit services for National Programs. With regard to Agency-funded contracts, the Agency has always excluded any third party privity based on the fact that the majority of such contracts utilize unvouchered funds and expenditures thereunder are certified, in accordance with our Act, by the DCI. While DCAA has no involvement with cost/price ~~audit~~ <sup>audit</sup> analysis, or of Agency-funded contracts, the Agency does rely on DCAA to provide information on indirect rate negotiations at contractor facilities in which Agency contracts are being performed. Information on direct rates, such as labor rates, is also supplied. These latter actions avoid any duplication of effort between this Agency and DCAA. Our working relationship over the years with DCAA has been one of cooperation.

a.

D. L. J.

2. While the DCAA offer to expand its services with CIA is consistent with Federal Government policy, which calls for cross-servicing arrangements and utilization of available services wherever they are existent in Government, we believe that such an arrangement would present many problems to this Agency. Some of these are discussed as follows:

(a) Sources and Methods: Our CIA Act requires that the DCI protect sources and methods. On each of our classified contracts we are dealing with a source of services and/or supplies for which the relationship between that source and CIA is classified. In many

[Redacted]

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The compromise of such information could result in the loss of human life, or the loss of important overseas assets. In other cases, the contractor itself is sensitive to its relationship with CIA and prefers that said relationship not be publicized. Failure to respect these latter types of situations could result in CIA inability to retain sources for services and supplies necessary to execute mission requirements.

[Redacted]

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D. L. J.

personnel identification. We have historically not permitted dissemination of hard copies of CIA contracts outside of either Agency or contractor premises. With 3,400 auditors in the DCAA stable, we would envision ultimate broadcasting of Agency contracts.

(b) Responsiveness: During the studies by the Task Force on Industrial Contracting and Industrial Security, the issue of DCAA responsiveness to requests by National Programs contracting officers was questioned. Since that time. Mr. [ ] of the Agency's Audit Staff, has further analyzed such responsiveness and has determined that it has been acceptable. Notwithstanding this fact, we currently are able to assign priorities to our internal contract audit staff and expect full compliance. If there is disagreement between the contracting officer and the head of the Commercial Systems and Audit Division (CSAD), <sup>on relative priorities of audits</sup> the matter can be escalated to a higher level and an appropriate priority assigned. Such leverage would not be possible when dealing with a separate agency of the Government. 25X1

(c) Bigot List: There are a number of Agency programs which are bigot listed and for which minimum distribution of information is required. A classic example of such a program is currently being operated at the direction of the DDCI. Such programs, with

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appropriate approvals in-house, are excluded from normal Agency review processes, such as the Agency Contract Review Board. With our in-house audit capability, we are able to closely control dissemination of information on such projects. We do not believe such control would be possible if a separate agency, such as DCAA, became involved in our contracts.

(d) Budget Classification: The CIA budget has traditionally been classified as having major increments within the budget which could be revealing to the opposition. By allowing DCAA to have full audit responsibility for all Agency contracts, that agency would have total insight to CIA's procurement budget. We might note in this regard that the General Accounting Office (GAO) itself is excluded from review of CIA contracts involving unvouchered funds.

(e) Personnel Security: A select group of DCAA auditors, designated as Detachment A, have been cleared at appropriate levels to audit National Programs. We ~~under~~ <sup>are</sup> now ~~are~~ <sup>are</sup> considering clearing not just the Detachment A contingent, but progressively some part of the entire 3,400-person audit staff of the DCAA. DCAA believes in a policy of rotating its auditors and, taken to the extreme, we could anticipate that ultimately the entire 3,400 auditors would become privy to CIA con-

*We would be now ~~are~~ <sup>are</sup> considering clearing not just the Detachment A contingent, but progressively some part of the entire 3,400-person audit staff of the DCAA.*

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tractor sources and CIA contracting methods. Unless CIA would agree to reduce its personnel security requirements, substantial cost would be incurred in the clearance of additional auditors necessary to handle the Agency contracting volume.

(f) Coverage: DCAA has agreements with other agencies, such as Agriculture, but will perform cost/price analysis on fixed price contracts only if they are in excess of \$100,000, and on cost type contracts if they exceed \$250,000. Presumably special assistance could be requested for which costs will be billed.

(g) Cost: On the positive side, the cost to the U.S. Government should be lower since the audit services would be centralized. The Agency would be utilizing services of DCAA auditors in place at contractor plants or traveling the contractor locations on other business. The move to DCAA would allow the DDA to reduce its T/O by some small (not yet determined) number of positions. Costs for audit services would be reimbursed to DCAA based on the number of audit hours expended with travel and per diem expenses reimbursed on an actual-as-incurred basis.

(h) Program Access: To do a complete job, the auditor must have access to the contract, the contractor's proposal, the statement of work, and other pertinent

*Dup*

documents. He may also need contact with technical personnel and should be invited to participate in contract negotiations. This would mean the DCAA audit personnel would gain full substantive knowledge of Agency programs and be involved in many cases with personnel operating under cover.

3. During the discussion around the table of various alternatives included in the referent memorandum (attached hereto), it was suggested that another possible alternative ~~could~~ <sup>might</sup> be the establishment of an Intelligence Community Audit Staff. The DCAA is asking that CIA transfer its audit work to that agency in the interest of efficiency and cost savings, and also to provide additional dollars through the reimbursable procedure to allow DCAA to fill all of its authorized positions. Rather than transfer work to DCAA, it might make sense to form an Intelligence Community Audit Staff which would report at the DCI level and which would have, as its responsibility, all audit services in relation to industrial contracts executed to carry out intelligence missions. Such a staff would have responsibility for industrial contracts written by any member of the intelligence community, whether in CIA, NSA, DIA, or the various services within DoD. Slots would be contributed by CIA, DCAA, and any of the other members of the intelligence community which presently dedicate resources to audit services for industrial contracting. All members of such a staff would be cleared to the same level. The staff would be large enough

*utilizing the same standards*

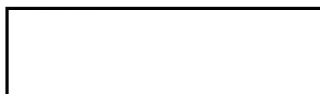


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to be a viable career service with rotational and promotional opportunities. Such an organization, we think, would be consistent with the DCI's goal of a closer knit intelligence community and in line with the DCI's total authority for intelligence community budget decisions. The problem of responsiveness would be resolved since the DCI is already responsible for prioritizing intelligence tasking and total command and control for the audit process would be under the DCI. While we have taken only a tentative look at this possibility, and have not discussed it with senior Agency management, we believe that the suggestion has possibilities and that many other advantages would accrue through a thorough treatment of the subject. *Political realities may make this suggestion unacceptable.*

4. In summary and conclusion, we do not believe that the Agency should abolish its audit capability and authorize DCAA to perform audit of Agency-funded contracts. This conclusion is based on information discussed above. We do recommend that senior Agency management at least consider the possibility of an Intelligence Community Audit Staff. Comments on the DCAA proposal, as well as the thoughts on an Industrial Community Audit Staff, should be solicited from the various deputy directors prior to making any decision on DCAA's offer.

Attachment



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~~DRAFT COPY - NOT SEEN BY DDA~~

MEMORANDUM FOR: Deputy Director for Science and Technology  
Deputy Director, National Foreign Assessment Center  
Deputy Director for Operations  
Deputy to the DCI for Resource Management Staff  
General Counsel  
Director of Security  
Director of Communications  
Director of Data Processing

FROM: Don I. Wortman  
Deputy Director for Administration

SUBJECT: CIA Contract Audit

1. Action Requested: It is requested that addressees consider information discussed herein and provide comments by 30 April 1979.

2. Background:

CIA executes industrial contracts for acquisition of services and supplies. The contracts range from very small purchase orders for low dollar off-the-shelf commercial items to relatively high dollar contracts for acquisition of major systems. Some form of cost and/or price analysis must be performed on every contract that is written.

The Agency has, since its inception, maintained an industrial contract audit capability to facilitate negotiation, administration and settlement of Agency contracts. This capability currently is the Commercial Systems and Audit Division (CSAD) within our Office of Finance which is responsible for cost and/or price analysis, as well as interim and final audit of industrial contracts executed in accordance with procurement authority delegated to the

~~DRAFT COPY - NOT SEEN BY DDA~~

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In addition to those contracts dependent on procurement authority delegated to the D/L, there is a delegation of procurement authority which flows from the DCI to the senior contracting officer for National Programs handled by the Office of Development and Engineering (OD&E) within DDS&T. Audit services for contracts executed by the National Programs contracting officer are provided by a special segment (Detachment A) of the Defense Contract Audit Agency (DCAA).

The DCAA is an element of the Department of Defense (DoD) and has approximately 3,400 auditors assigned at contractor plants or wherever DoD contracts are being performed. Since most of our contractors do work for DoD, and to avoid duplication of effort, our CSAD regularly relies on DCAA to provide information on indirect rates such as General and Administrative (G&A), Overhead (OH), and Independent Research and Development (IR&D). DCAA may also provide information on direct cost areas such as approved labor rates. Since the rates are necessary for DoD contracts it is a simple matter for DCAA to relay such information to CIA.

For our National Programs, the DCAA performs the entire audit function. They provide indirect rates and also do cost/price analysis and audit of direct costs incurred under contracts. The results of their audits are provided to CIA contracting officers as advisory reports in accordance with Defense Acquisition Regulation (DAR). For contracts written in accordance

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with authority delegated to the D/L, the DCAA is relied on to provide information on indirect or direct rates for contractors of mutual interest but is not involved in any  cost/price analysis or audit of direct costs incurred. In fact, DCAA is generally not knowledgeable of the fact that CIA is contracting with a particular contractor.

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DCAA has now proposed to expand its services to the Agency by performing cost/price analysis and audit services on Agency contracts based on authority flowing from the D/L. Such services would be provided on a reimbursable basis, based on actual audit hours billed at the prevailing interagency rate. Travel and per diem expenses required to accomplish audits of a nonroutine nature would be billed separately. An annual report would be issued on such contractors where the contract total is in excess of \$500,000. Reports would be issued upon request for contractors where total CIA business exceeds \$1,000,000. Audit requests for initial pricing proposals would be made to DCAA for procurements over \$100,000 for fixed price and fixed price with economic price adjustment proposals, or \$250,000 for other types of proposals. DCAA proposes, as a first step, that we utilize their services for contracts being performed by contractors already performing National Programs contracts. This would involve only DCAA auditors assigned to their Detachment A.

Drop

3. Staff Position:

DCAA performs valuable service for DoD, for the rest of Government and, indeed, for CIA through its full service on National Programs and its cooperative responses to Agency requests over the years for information on direct and indirect rates for various contractors. As further evidence of the high degree of cooperation between our agencies, DCAA has provided

for CIA audit personnel for a number of years.

In the interest of increased Government efficiency and recognizing that centralization and consolidation normally result in savings, we are attempting to weigh the pros and cons of the DCAA proposal. Our goal, of course, is to arrive at the most efficient way of providing audit services while maintaining a security posture consistent with Agency mission and function and DCI policy.

I have attached a memorandum for the record which includes the thoughts of some of our Agency personnel working directly with our industrial contracting processes. Aside from possible overall cost advantage, most of the points surfaced in that memorandum point toward a negative reply to DCAA which would be based mostly on security considerations. Since the contracts involved are for services and supplies required by the addressees, your comments are requested prior to going back to DCAA with an Agency response.

*Draft*

It is noted that our officers responsible for the attached position paper have suggested that an alternate proposal to having DCAA assume responsibility for all Agency contracts might be the establishment of an Intelligence Community Audit Staff. Such a staff would report to the DCI and have audit responsibility for all intelligence community contracts. CIA would contribute its slots presently dedicated to industrial contract audit as would NSA, DIA, and other intelligence community members. DCAA would contribute positions primarily involved with intelligence contracts (Detachment A plus others). While there has been no discussion of this proposal with other members of the community with Mr. Carlucci, or with the DCI, there may be merit <sup>in</sup> ~~on~~ such an approach. The centralized contract audit would be consistent with DCI budget responsibilities. It would allow the DCI to levy appropriate security controls and monitor compliance with security requirements. It would also be consistent with the DCI's responsibility for assigning priorities for mission tasking. One last thought is that such an organizational move would further enhance the DCI's efforts to develop a cohesive intelligence community. I feel that while our boss is not interested in a turf battle *the pros and cons of this suggestion may be worthwhile.* at this time <sup>your</sup> comments on this specific proposal are requested. Any alternative suggestions will also be appreciated.

4. Recommendation: None.

Don I. Wortman

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Approved For Release 2003/02/27 : CIA-RDP82-00599R000100060004-7

7 MAY 1979

MEMORANDUM FOR: Director of Finance

FROM : Chief, Contract Team, DEG/OD&E

SUBJECT : Proposed Transfer of Contract Audit Responsibility  
to Defense Contract Audit Agency ☐

25X1 I've recently become aware of the proposal made by DCAA that they assume responsibility for audit of Agency contracts, and I feel compelled to comment on this proposal before it becomes a fait accompli. ☐

My interest in this matter is based on my experience in both contract audit and Agency contracting. I have been an MF careerist for the last 8 1/2 years. From November 1970 until March 1977 I worked in CSAD/OF as a Contract Auditor/Cost Analyst, and since that time have been on rotational assignment to the Office of Logistics. Currently, I am a member of the Contract Staff/OD&E; specifically, my assignment is that of Contracting Officer for the Development Engineering Group/OD&E. Prior to my EOD with the Agency, I worked for 2 1/2 years as a Contract Auditor for DCAA. Given this background, which includes cognizance of DCAA's methods of operation, as well as Agency procurement and contract audit practices and procedures, I feel I can comment on the proposed transfer of audit responsibility to DCAA from a reasonably balanced perspective. ☐

The Agency has taken the position with OMB, OPFF and the Congress that security considerations preclude public acknowledgement of CIA contractual relationships in the vast majority of our procurement activities, and that such acknowledgement could jeopardize the security of related projects and compromise intelligence sources and methods. Furthermore, the Agency has stated that needless and potentially dangerous proliferation of access to sensitive information on CIA acquisitions would directly effect the

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SUBJECT: Proposed Transfer of Contract Audit Responsibility  
to Defense Contract Audit Agency [ ]

ability of the Agency to carry out its assigned missions. We have also maintained that the special procurement authorities contained in 50 USC 403j are absolutely essential to the Agency's missions, that it is imperative that these authorities remain unimpaired, and that any unnecessary review of Agency acquisition programs by external authority would be inconsistent with the statutory responsibility of the DCI for protection of intelligence sources and methods. Further, we have taken the position that the Agency has a continuing need to expend funds in connection with activities of extreme sensitivity, that information regarding these expenditures must be withheld from all except those directly involved or having legitimate Congressional oversight responsibilities, and that the Agency's current authority to do so would become meaningless if records related to such expenditures, including contractual information, were subject to examination by external authority. [ ]

The contract audit function is an integral part of the overall procurement process, and performance of this function within the Agency involves familiarization with, and access to, classified procurement and program information. To think that we can transfer responsibility for this function to DCAA, whose personnel do not currently meet the minimum standards for employment as Agency staff personnel, and whose records are open to GAO audit, without a questionable proliferation of classified information on Agency procurement activities and programs would be a serious mistake, in my view. Such action would be totally inconsistent with the Agency's stated position regarding non-access to our procurement activities by external authority, would significantly erode the Agency's defense of that position, and would raise serious questions regarding the Agency's ability to prevent unauthorized disclosure of classified procurement and program sensitive information. [ ]

There appear to be many unanswered questions regarding the potential impact of DCAA's proposal. I would be happy to discuss this matter with you personally should you feel such discussion would be worthwhile. [ ]

[ ]  
Chief  
Contract Team/DEG/OD&E

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CONFIDENTIAL



22 March 1979

MEMORANDUM FOR: Director Office of Finance

STAT  
FROM :   
Chief, Commercial Systems and Audit Division/OF

SUBJECT : Utilizing the Services of the Defense Contract Audit Agency  
in Support of Agency Procurement Activities

1. In compliance with your request we have studied the possibility of the Agency using the services of the Defense Contract Audit Agency in support of its procurement activities. Security and contractual considerations aside, the Defense Contract Audit Agency can provide all of the audit services including pre-award surveys, reviews of and analyses of contractors' cost proposals, audits of costs incurred in contract performance, reviews of contractors' procurement systems and reviews of property records as presently provided by the Commercial Systems and Audit Division of the Office of Finance. Although emphasis in this study is directed toward audit, according to OMB Policy Letter 78-4, cross servicing arrangements are not to be limited to audit activities. To facilitate the award and administration of contracts, agencies are encouraged to make use of cross-servicing arrangements with existing field contract administration components viz. Defense Contract Administration Services, for quality assurance, contract compliance and administration, property administration, and labor relations. Indeed, the Agency might also be expected to avail itself of the Department of Defense industrial security functions.

2. In order to consider the magnitude of the problem we cite the following statistics for auditable Agency cost type contracts as at 30 September 1978:

Number of Contractors  
Number of Contracts  
Number of Task Orders  
Total Dollar Authority  
Amounts Audited in FY 78  
Audit Deductions in FY 78  
Survey Reports  
Cost Proposals Analyzed  
Overhead Audit Reports  
DCAA Overhead Reports Review  
Interim Audit Reports  
Final Audit Reports  
Contract Auditors  
Agency Contracting Teams Ser

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d.

SUBJECT: Utilizing the Services of the Defense Contract Audit Agency in Support of Agency Procurement Activities

3. In evaluating the extent of utilizing Defense Contract Audit to support the Agency in its procurement activities we believe the following alternatives should be considered:

(a) Continue to maintain Agency capability to audit Agency procurements as at present.

(b) Assign all Agency contract audit activity to Defense Contract Audit Agency.

(c) Assign all Agency contract audit activity to Defense Contract Audit Agency - Detachment A.

(d) Assign all Agency contract audit activity on unclassified contracts to Defense Contract Audit Agency and maintain Agency capability to audit Agency procurements on classified contracts.

(e) Assign all Agency contract audit activity on unclassified contracts to Defense Contract Audit Agency and assign all Agency contract audit activity on classified contracts to Defense Contract Audit Agency - Detachment A.

(f) Assign Agency contract audit activity to Defense Contract Audit Agency for procurements at contractors where DCAA maintains resident auditors. (This in essence will include Agency contracts in comprehensive audits now performed by DCAA). Continue to maintain Agency capability to audit Agency contracts at other locations.

(g) Assign Agency contract audit activity to Defense Contract Audit Agency Detachment A for procurements at locations where DCAA Detachment A maintains resident auditors. Continue to maintain Agency capability to audit at other locations.

4. Recognizing that in post-award audits the Defense Contract Audit Agency is primarily oriented toward comprehensive audits, especially at locations where they are in residence, as opposed to contract audits as performed by CSAD/OF, the results of audits are not readily comparable. It is true however that CSAD/OF auditors generally arrive at additional disallowances on specific contracts which have been included in DCAA's comprehensive audits. The mission of DCAA is apparently directed more toward the savings of Government dollars whereas CSAD/OF is primarily concerned with the savings of Agency funds. DCAA post-award audits at contractor locations where auditors are not in residence are sometimes performed on a contract basis

SUBJECT: Utilizing the Services of the Defense Contract Audit Agency in  
Support of Agency Procurement Activities

rather than a comprehensive audit. This is similar to audits performed by CSAD/OF. We do not believe that significantly less effort will be required to consolidate these audits although presenting "one face" to contractors may be of some Government benefit. Of course, the auditor, being subject to the whims and desires of several contracting officers from different agencies may be required to assume different postures. This would present no problem if, after negotiation, the Agency transferred the administration of its contracts to Defense Contract Administration Services.

5. Pre-award audits including cost analyses, accounting system studies, financial capability reviews, procurement system reviews and audits of property administration procedures are done in similar fashion by both DCAA and CSAD/OF auditors. DCAA auditors are generally asked for field pricing support prior to negotiation of a contract or modification for a proposal in excess of \$100,000 for firm fixed price and fixed price with economic price adjustment proposals, or \$250,000 for all other types of proposals, when the price is based on cost or pricing data supplied by the contractors. In rare instances, when circumstances indicate the need for an audit review, lessor proposals are reviewed. CSAD reviews all proposals requested by contracting officers regardless of amount. It relies on Defense Contract Audit Agency for approvals of direct labor and overhead bidding rates on companies in which DCAA has an interest.

6. There currently is no duplication of effort in regard to the audit of indirect expense allocation rates since CSAD/OF generally accepts DCAA determinations on companies of mutual interest. No effort is expended in this area by CSAD except to ascertain that DCAA determination has been made compatible to the terms of Agency contracts. CSAD performs overhead audits of contractors where no other Government agency has audit cognizance.

7. The Commercial Systems and Audit Division/OF currently services contractual requirements of eight different contracting teams. Liaison auditors are assigned to three teams for pre-award audit services. Proposals emanating from a team to which a liaison auditor has not been assigned are sent to CSAD and assignments are made to Eastern and Western Branch personnel. The proposed contracts may be security classified (and compartmented) or unclassified. The assigned auditor works closely with the contracting officer's technical representative for technical input to be considered in the auditor's report, and also with the contracting officer in formulating the contract document. The auditors may attend negotiation conferences for establishing contract prices. Copies of definitized contracts are furnished to CSAD/OF by the various contracting teams as the documents are issued. Separate controls are maintained by the Eastern and Western Audit Branches for contracts under their cognizance. Each branch chief reviews semi-annually the contracts under his responsibility and prepares a work schedule of companies to be visited during the succeeding six month period. At that time auditors are assigned specific field trips and are

SUBJECT: Utilizing the Services of the Defense Contract Audit Agency in Support of Agency Procurement Activities

expected to bring to a current status the audit field work on all Agency contracts with the designated firm. Agency payments and disapprovals generated by desk audit are reconciled to the contractors' records. Interim or final audit reports are issued to the responsible contracting officer in each of the contracting teams. A close working relationship is maintained between the auditor and contracting officer in order to resolve cost disapprovals which may have been generated at time of audit.

8. Because of the close working relationship required by CSAD auditors with contracting officers, contracting officers' technical representatives, individuals in the payment section of A&CD/OF and Agency security representatives, it is difficult to imagine even a remotely comparable relationship under alternatives b through g cited in paragraph 3. Agency procurement officers couldn't be expected to task specific DCAA or Detachment A offices with proposal evaluation responsibilities but would of necessity be required to centralize their requests. The tasking would then be made by, presumably an official of the Defense Contract Audit Agency. Proposal reports generated in the field would likewise be required to flow through the designated official. In the event clarifications were required these might also have to be carried on through the third party. The auditor's presence at a negotiation conference may not only be costly but perhaps impractical in view of the relatively small dollar amounts on Agency contracts as opposed to the DoD contracts.

9. Ken Peterson, Chief, Detachment A, DCAA stated that post-award audits in his organization are confined to comprehensive rather than contract audits. Disapprovals generated by the systems audit are generally allocated to contracts on a participation basis. A review of a recent DCAA agreement with a U. S. Department indicates that DCAA will perform contract audits only upon specific request. It also provides for the furnishing of an annual report on each contractor where (1) the contract is in excess of \$500,000, or (2) upon request at contractor locations where the Department business exceeds \$1,000,000.

10. At this time we do not propose recommending any of the specific alternatives mentioned in paragraph 3. The Office of Security should first make a determination that bringing in 40 DCAA Detachment A auditors and/or approximately 3,400 DCAA employees into the Agency procurement cycle will present no significant security problem. Additionally, the Office of Logistics should advise as to whether or not they are willing to live not only with the reduced services to be provided by DCAA or DCAA Detachment A but also as to whether a practical arrangement can be made with one or both of these organizations. A final consideration should be given to the fact that the General Accounting Office routinely reviews the activities of the Defense Contract Audit Agency, including its regional, resident and branch offices. It, of necessity, may review DCAA performance on specific contracts. This then might have the effect of providing entree into the Agency procurement cycle.

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☐ UNCLASSIFIED

☐ INTERNAL  
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☐ SECRET <sup>Official</sup>

Approved For Release 2003/02/27 : CIA-RDP82-00599R000100060004-7

ROUTING AND RECORD SHEET

*Contracts*

SUBJECT: (Optional)

Audit Services for CIA Industrial Contracts

FROM:

Deputy Director of Logistics

EXTENSION

NO.

OL 9 1965

DATE

17 May 1979

TO: (Officer designation, room number, and building)

DATE

OFFICER'S  
INITIALS

COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)

1. Mr. Ed Sherman  
Director of Finance  
616 Key Building

Ed:

[redacted] has suggested that the Agency Contract Review Board review specific cases for possible submittal to DCAA for interim and final audit. I feel that the Board will want to establish some general policy guidelines and to consider the greater issue of whether DCAA should be involved in our Agency-funded contracts prior to initiating the procedure suggested by Harry. We have distributed the attached package to all Board members and will discuss this issue in Executive Session on Wednesday, 23 May, 10 AM, [redacted] ing. We would appreciate it very much if you could find time in your schedule to be with us during this discussion. You are invited also to bring with you [redacted] and any other of your staff who you think might be helpful.

Attachment

FORM  
3-62

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USE PREVIOUS  
EDITIONS

☐ SECRET

☐ CONFIDENTIAL

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